

Arizona American Water

W-01303A-09-0343

SW-01303A-09-0343

IN OPPOSITION



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Antonio Gill

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Friday, May 07, 2010 4:17 PM

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Subject:

Fw: Water Case: The Issue of Consolidating Water Districts.....

Attachments:

ProConCouncil.pdf; ProCon.pdf

----- Original Message -----

From: Bob Golembe

To: Undisclosed-Recipient:

Sent: Friday, May 07, 2010 3:40 PM

Subject: Water Case: The Issue of Consolidating Water Districts.....

Hi,

May 18th starts the Commission hearing on Rates and Consolidation. Consolidation is vigorously opposed by Sun City; Anthem Council supports it. Other parties are also split.

To get some idea of the argument, I extracted the pros and cons from two recently filed testimonies: Anthem Council (1 page) and Sun City, Mr. Larry Woods (2 pages).

This material is being presented for information purposes only. I think all should be aware of the elements of the argument as depicted in these two documents.

Bob

Arizona Corporation Commission

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II. RATE CONSOLIDATION

Q10. THE COMPANY SUPPORTS RATE CONSOLIDATION BUT THE STAFF RECOMMENDS CONTINUANCE OF THE CURRENT STAND-ALONE CONFIGURATION. WHAT IS YOUR POSITION ON THIS ISSUE?

A10. In my view, the merits of rate consolidation significantly outweigh any adverse consequences of a rate consolidation process. To achieve the benefits of consolidation, however, all of the Company's water and wastewater districts should be included in the consolidation. The partial consolidation alternatives presented by Staff do not provide for any meaningful improvement over the current stand-alone system. Similarly, the current "mini-consolidation" of the Anthem and Agua Fria Wastewater districts into a single (and isolated) consolidated district makes no sense. If consolidation of all the Company districts is not accomplished in this case, the Commission should de-consolidate these wastewater districts and set separate stand-alone rates.

Q11. WHAT ARE THE MAJOR BENEFITS OF RATE CONSOLIDATION?

A11. Rate consolidation provides for the following major benefits:

1. Lower administrative costs through unified customer accounting and billing systems;
2. Reduction in rate cases and associated rate case expenses incurred by the Company, Staff, RUCO and other intervenors;
3. Elimination of distorted cost allocations among districts in rate filings - these cost imbalances abound in this case as discussed in my direct testimony on revenue requirements;
4. The implementation of standard customer service policies and related service rates and charges;
5. Improved rate stability and elimination of rate shock – an issue confronting Anthem customers in this case;
6. Reduced customer confusion with respect to differing rate schedules under one Company umbrella; and
7. The development and implementation of a targeted and comprehensive water conservation program for all of its systems.

3 A: Yes. If we look at the general case for rate consolidation there are some potential gains that
4 can be achieved. The following list is taken in part from EPA Document No. 816R99009¹:

- 5 1. Mitigates rate shock to utility customers
- 6 2. Lowers administrative costs to the commission
- 7 3. Provides ratemaking treatment that is similar to that for other utilities
- 8 4. Lowers administrative costs to the utilities
- 9 5. Provides incentives for utility regionalization and consolidation
6. Promotes universal service for utility customers
7. Improves service affordability for customers
8. Addresses small-system viability issues
9. Facilitates compliance with drinking water standards
- 10 10. Promotes regional economic development
- 11 11. Encourages investment in the water-supply infrastructure

12 Q: HOW DO THESE FAVORABLE ASPECTS OF RATE CONSOLIDATION RELATE
13 TO THE PRESENT RATE CASE?

14 A: Only the first four aspects relate to this case. I am very satisfied with the service that I receive
15 from AAWC and would guess that most other ratepayers feel much the same way. Since all
16 discussions of rate consolidation have been in reference to the existing water and waste water
17 districts of AAWC I can only assume that any discussion of rate consolidation assumes that
18 these existing districts constitutes the totally of AAWC's plans. If this is the case then only
19 the first four positive attributes of consolidated ratemaking would apply to our situation:
20 mitigating rate shock and improving on the administrative efficiencies of both AAWC and the
Corporate Commission.

21
22 Q: WHAT CIRCUMSTANCES MIGHT OCCUR THAT COULD MAKE THE
REMAINING ITEMS (5-11) RELATE TO AAWC RATE CONSOLIDATION?

23 A: If we assume that AAWC would consider the future acquisition of additional for-profit water
24 companies, then we can consider the remainder of the items above to be considered of benefit.
25

26 Q: ARE YOU SAYING THAT THE PRESENT AAWC RATEPAYERS COULD BENEFIT

3 **FROM FUTURE AAWC ACQUISITIONS?**

4 A: The present ratepayers would benefit very little, if any. In reading through items 5-11 above I
5 see few, if any benefits to existing AAWC ratepayers. There is no question that many of these
6 attributes would be recognized and welcomed by the ratepayers of a failing water company
7 that was acquired and brought up to standard by AAWC. But what would be the benefit to
8 present AAWC ratepayers? I only see the negative of raising rates which would be needed in
9 order to bring the acquisition into compliance.

10 Q: **HAVE YOU IDENTIFIED ADDITIONAL NEGATIVE ASPECTS TO RATE**
11 **CONSOLIDATION IN GENERAL?**

12 A: Yes. Again, referencing EPA Document No. 816R99009ⁱ, here are some of the negative
13 aspects of rate consolidation:

- 14
1. Provides subsidies to high-cost customers
 - 15 2. Distorts price signals to customers
 3. Discourages efficient water-use and conservation
 - 16 4. Encourages growth and development in high-cost areas
 5. Undermines economic efficiency
 - 17 6. Conflicts with cost-of-service principles
 7. Encourages overinvestment in infrastructure
 - 18 8. Fails to account for variations in customer contributions
 9. Provides unnecessary incentives to utilities
 - 19 10. Considered inappropriate without physical interconnection
 - 20 11. Not acceptable to all affected customers
 12. Justification has not been adequate in a specific case (or cases)
 - 21 13. Insufficient statutory or regulatory basis or precedents

22 Q: **WHICH OF THE ABOVE NEGATIVE ASPECTS WOULD APPLY TO THE**
23 **PRESENT RATE CONSOLIDATION CASE?**

24 A: All of the above negative aspects of rate consolidation have the potential of being realized if
25 rate consolidation were to be allowed.
26